



TEXAS WINDSTORM  
INSURANCE ASSOCIATION

# **TWIA Board of Directors Meeting**

Public Workshop on Rates & Related Issues

April 21, 2021

# Agenda

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- **Call to Order**
- **Public Comment**
- **Staff Presentation**
  - TWIA Rates & Funding Overviews
  - LEA & Public Policy Considerations Refresher
  - Rates & Reinsurance Legislation Overview
- **Workshop Topics**
- **Ideas Submitted by the Underwriting & Actuarial Committee Members**
- **Ideas Submitted by the Public**
- **Reinsurance over the 1:100 PML**
- **Action Items & Next Steps**

Staff Presentation

# **RATE OVERVIEW**



# Rate Standards

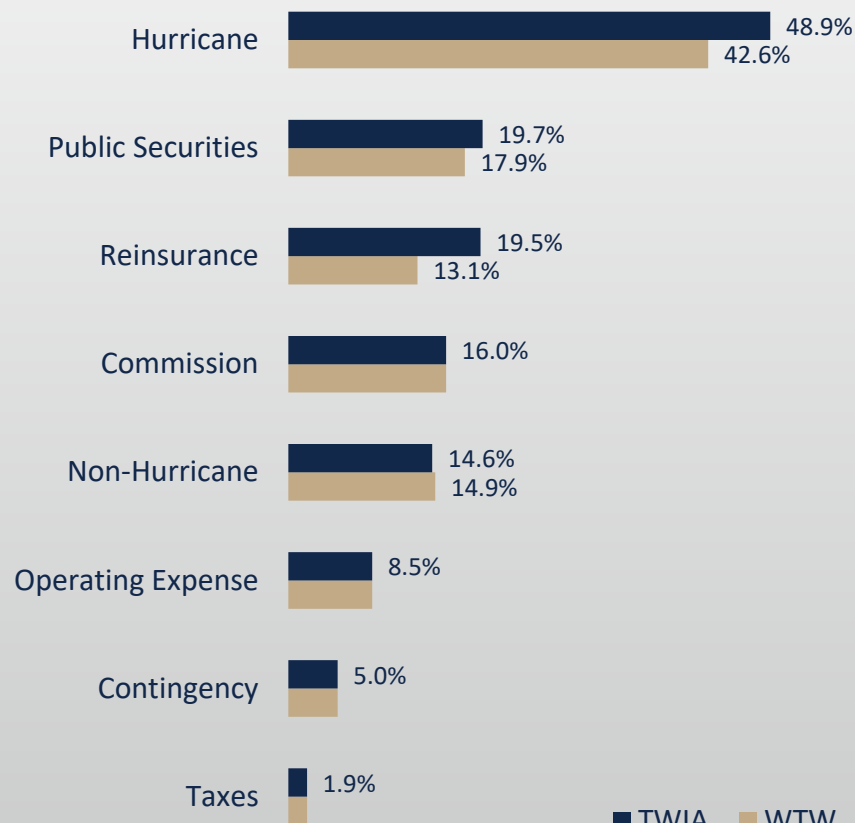
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- **A rate is an estimate of the expected value of all future costs associated with an individual risk transfer**
- **Rates must be reasonable, adequate, not unfairly discriminatory, and nonconfiscatory as to any class of insurer**
- **Rates must consider**
  - Past and prospective loss experience
  - Operating expenses
  - Profit and contingencies
  - Payment of public securities
  - All other relevant factors
- **The association shall not be a direct competitor in the private market**

# Components of TWIA Rates

- **Most recent Association analysis +44% R / +49% C**
- **WTW analysis indicates +26% R / +44% C**
- **Primary differences include model output, model weighting, and reinsurance expense**
- **Given current premiums, a reduction of \$1 million in rate components would result in approximately  $\frac{1}{3}$  percent reduction in indications**
- **Note: TWIA income is not subject to federal income tax**

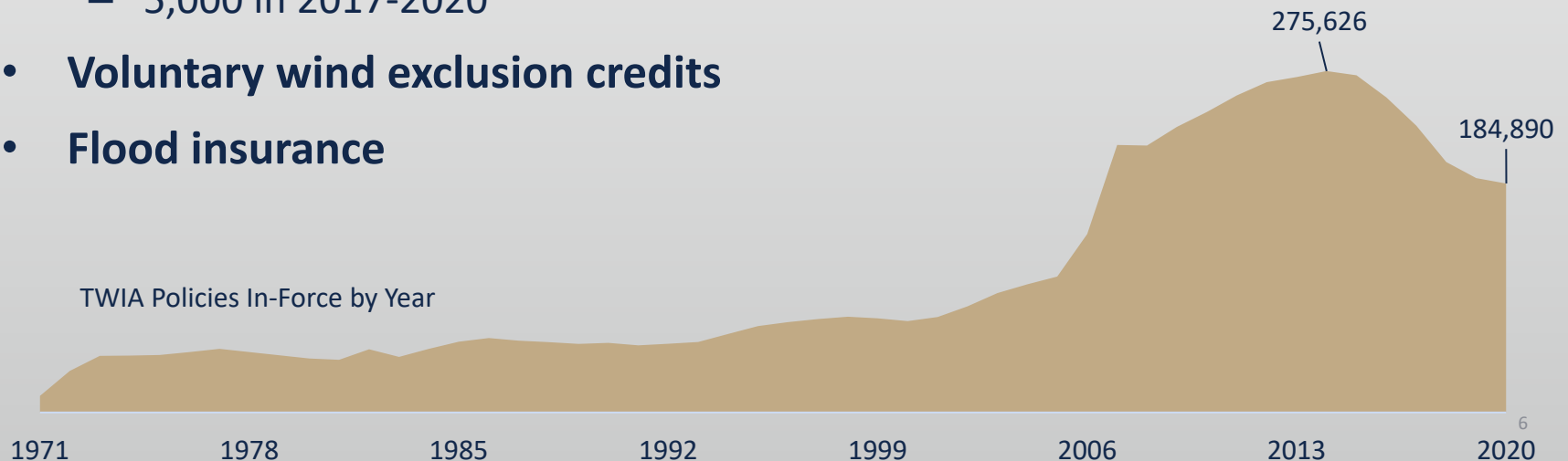
## Residential Rate Components



■ TWIA ■ WTW

# External Factors

- **TWIA residential market share declining**
  - In 2014, TWIA wrote 69.5% of coastal homes
  - In 2019, TWIA wrote only 40.7%
- **Policies in-force reduced 90,000 in last six years**
- **16,000 risks transferred via Depopulation**
  - 11,000 in 2016
  - 5,000 in 2017-2020
- **Voluntary wind exclusion credits**
- **Flood insurance**



# Rate Filing Timeline



Staff Presentation

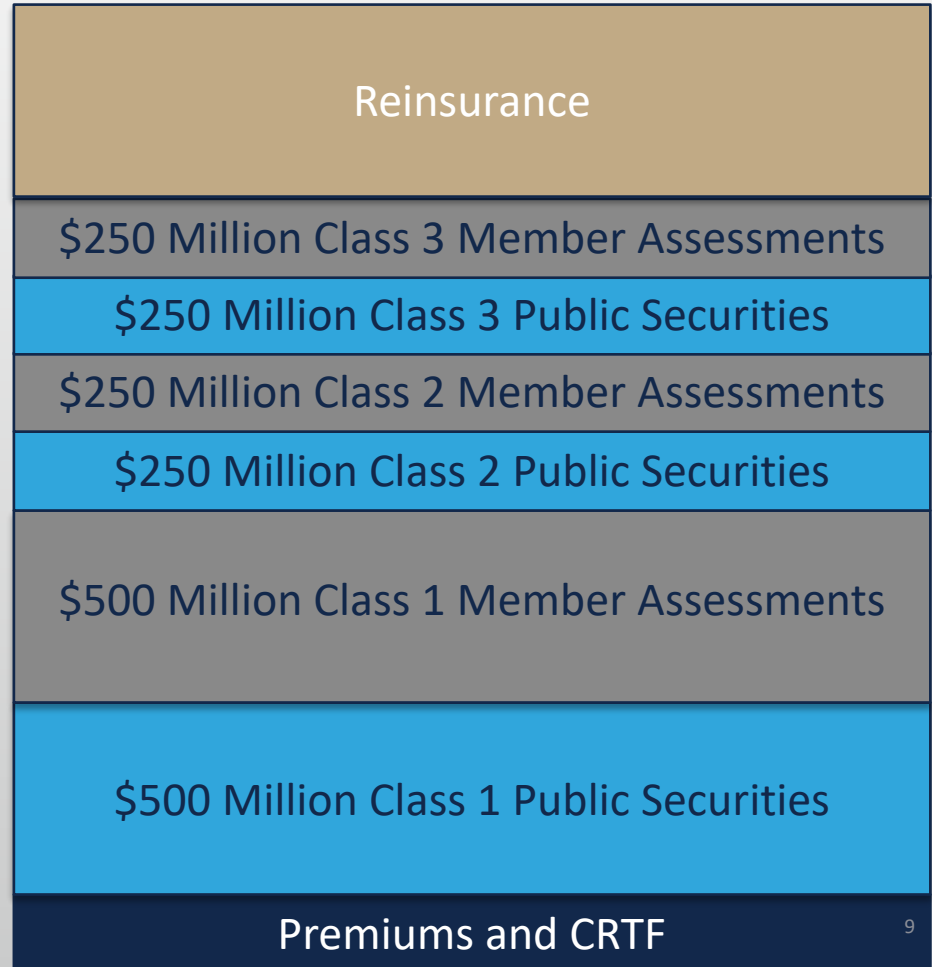
# TWIA FUNDING STRUCTURE





# Catastrophe Funding

- Statute provides a combination of public securities and member company assessments totaling \$2 billion
- Statute requires total funding in an amount not less than the probable maximum loss (PML) for a catastrophe year with a probability of one in 100
- Reinsurance can only be placed on top of the statutory funding sources



# Overview of Funding Sources

- **TWIA (Current Year) Premiums and Other Revenue**
  - TWIA is prohibited by statute from paying policyholder losses from any catastrophe year with premium and other revenue earned in subsequent years
- **Available Reserves and Amounts in the Catastrophe Reserve Trust Fund (CRTF)**
  - TWIA is prohibited by statute from paying policyholder losses from any catastrophe year with reserves available or accrued in subsequent years
  - Net gains from operations are deposited annually; WPI-8 waiver program surcharges are also deposited
- **Class 1, 2, and 3 Public Securities**
  - Public securities are backed by TWIA revenue and not obligations of the state
  - Public securities are repaid by TWIA premiums, policyholder surcharges, and coastal property surcharges
- **Class 1, 2, and 3 Member Company Assessments**
  - Based on percentages of participation calculated using statewide and coastal market shares
  - Member companies don't receive tax credits for assessments
- **Reinsurance or Alternative Risk Financing**
  - Reinsurance is purchased using policyholder premiums and must be in an amount sufficient to meet the minimum required funding level
  - Member companies are assessed for reinsurance purchased above TWIA's minimum required funding level of a 100-year storm season

# CRTF Role and Benefits

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- **Liquidity**
  - Funds immediately available to pay claims following a storm
  - In the first three weeks after Harvey made landfall, TWIA issued \$96 million in claim payments
- **The greater the balance in the CRTF:**
  - The lower the likelihood the Association must issue costly bonds
  - The less reinsurance the Association needs to meet the 1:100 minimum funding requirement
  - The higher the attachment point of the reinsurance, which results in lower reinsurance costs

# CRTF Investment

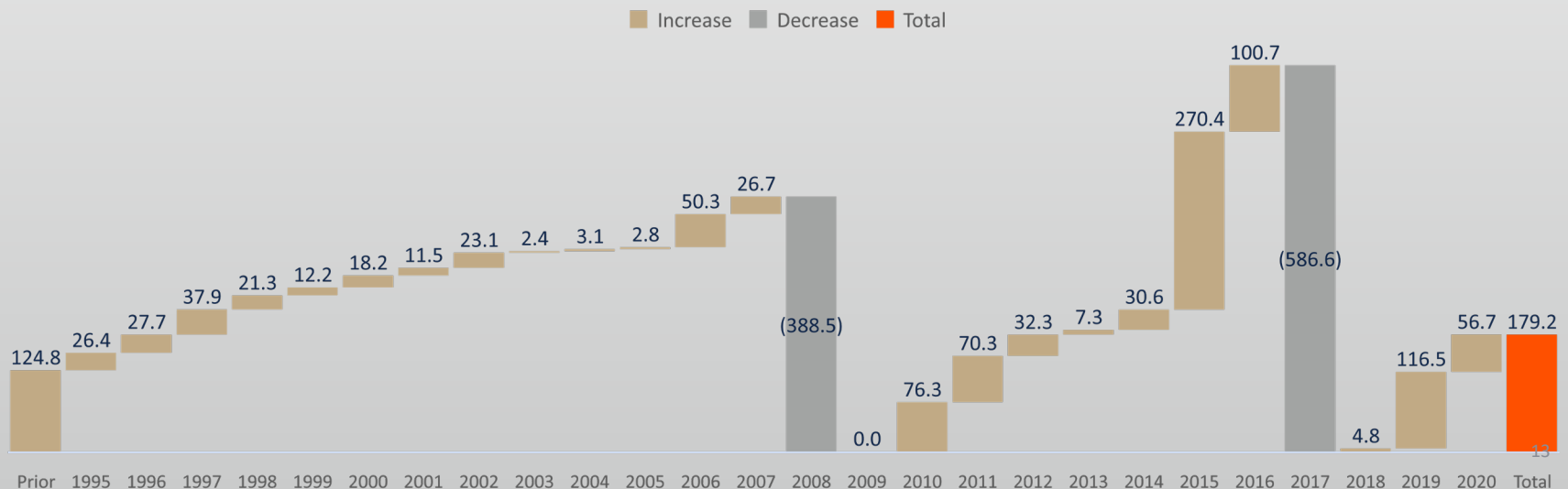
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- **CRTF earns 0-2.5% interest depending on prevailing market rates**
  - CRTF investments are managed by the Comptroller
- **Excess CRTF funds not needed to meet immediate cash flow requirements after a storm can be invested in higher yield, less liquid instruments**
  - In past years, the Board has determined there are no excess funds
  - The entire CRTF balance of \$743 M was exhausted within 8 weeks after Hurricane Harvey

# CRTF Balances

- In 2005, TWIA used \$5M to pay losses from Hurricane Rita
- In 2008, TWIA withdrew \$100M for Dolly and \$370M for Ike, leaving a balance of \$0 in the CRTF
- Between 2008 and 2017, TWIA rebuilt the CRTF to \$743M, its highest balance, all of which was used to pay losses from Hurricane Harvey in 2017

CRTF Net Deposits by Year (\$M)



Net deposits include net gains from operations, WPI-8 waiver surcharges, and investment income less withdrawals and administrative expenses.

# Public Securities Overview

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- **TWIA's governing statute provides three classes of public securities (bonds) to fund losses**
  - \$500M of Class 1 public securities, the first layer after the CRTF, may be issued pre-event or post-event
  - \$250M each of Class 2 and 3 public securities may only be issued post-event
  - Repayment sources, in order: Premiums, TWIA policyholder surcharges, coastal property surcharges

# History of Series 2014 Bonds

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- **In 2014, TWIA issued \$500M in Class 1 bonds for future storm losses**
  - 10-year repayment term with an interest rate of 8.25%
  - \$449.2M used to pay Harvey losses; \$51M required to retain in debt reserve fund
- **In 2019, TWIA considered refinancing Series 2014 bonds**
  - TDI conditioned refinance on interest rate not to exceed 7.5%, term no greater than 5 years
  - After initial negotiations, TWIA concluded terms to complete refinance of bonds were not in the best interest of TWIA or policyholders
- **In 2020, TWIA Board approved \$45M partial early redemption of bonds**
  - Used portion of 2019 net gains from operations; remaining 2019 net gains from operations deposited into CRTF
  - Optional redemption completed May 2020; projected to save TWIA more than \$3.7M in interest expense annually

# History of Series 2014 Bonds

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- **In January 2021, TWIA entered discussions with Bank of America on potential refinancing opportunities**
  - Bank of America currently drafting terms and pricing for refunding securities that meet specific Association requirements
  - No assurances that discussions with Bank of America will lead to successful refinancing of Series 2014 bonds
- **Outstanding principal on Series 2014 bonds is \$227.2M** *(as of 12/31/2021)*



# Funding Structure Challenges

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- **Public securities may not be fully marketable or funded quickly enough**
  - Proceeds issued after a catastrophic event may not be available for up to six months after a catastrophic event, potentially delaying claim payments
  - Not all proceeds are available to pay claims due to reserve accounts required by bond investors
  - Public securities may not be able to be issued in their full, authorized amount due to TWIA's financial condition or general financial market conditions

# Funding Structure Challenges

- **The current structure imposes a financial burden on TWIA and its current and future policyholders following a catastrophic event**
  - A depleted CRTF requires TWIA to purchase more reinsurance to meet the minimum funding requirement and causes reinsurance to attach at a lower point, increasing costs after an event
  - The cost of reinsurance is likely more expensive after an event
  - Policyholders may not be able to afford surcharges that may be required to repay multiple Class 1 bond issuances
    - Staff estimates an 18-25% surcharge would be needed if an additional \$500 million in new Class 1 debt is issued assuming 10-year term and 6.5% interest rate
- **No funding provision in excess of the 100-year minimum funding level**

Staff Presentation

# **PUBLIC POLICY ON TWIA RATES AND FUNDING**

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# Biennial Report Ratemaking Alternatives

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- **Glidepath Approach**

- Requiring that rate inadequacy be addressed through a “glidepath” approach consisting of a series of smaller rate increases over time

- **Administrative Hearing**

- Holding an administrative hearing before an Administrative Law Judge who would submit a rate change proposal to the Commissioner of Insurance

- **Rating Bureau**

- Creating a separate rating bureau or similar entity to assess TWIA’s rate adequacy and propose or implement rate changes

# Biennial Report Funding Alternatives

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- Allow TWIA to collect from its policyholders a CRTF surcharge separate from premiums to fund the CRTF directly
- Authorize a statewide policy surcharge to build the CRTF to a minimum level
- Reorder TWIA funding to place post-event securities “higher up”
- Provide a temporary source of funds that could be used to pay claims until proceeds from public securities become available
- Provide additional funding from assessments or other sources for any difference between the \$1 billion of authorized public security issuances and the actual amounts available to pay claims
- Authorize issuance of public securities in amounts over \$1 billion such that the net amount available for claims is \$1 billion
- Allow flexibility in the attachment point of reinsurance to address any gap created by issuance costs and/or debt reserve amounts
- Allow for the issuance of public securities guaranteed by the State of Texas and/or on a tax-exempt basis for investors

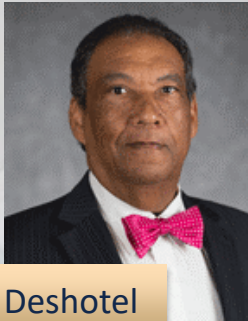
# Biennial Report Funding Alternatives

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- **Allow TWIA to account for the CRTF balance as a surplus**
- **Provide additional funding from assessments or other sources to fund gap between the \$1 billion of public securities authorized and the actual amounts issued**
- **Allow flexibility in the minimum required funding level after a catastrophic event to reduce the amount of reinsurance required**
- **Allow a contingent source of funding for Class 1 public securities similar to sources for Class 2 and Class 3 public securities**
- **Cap amount of public securities to be repaid by TWIA premiums and policyholder surcharges at any one time**
- **Revise existing bond repayment surcharge on TWIA policies to apply at renewal, not during the policy term**
- **Identify additional sources of funding for losses in excess of the 100-year funding level**

# Rates & Reinsurance Legislation Overview

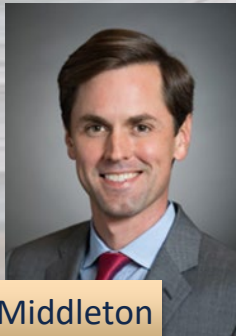
## HB 477



Rep. J. Deshotel

Proposes legalizing casinos in certain coastal counties and using taxable income from those casinos to fund TWIA.

## HB 769



Rep. M. Middleton

Prohibits the Association from including the costs to adjust losses in its estimate of the probable maximum loss used in determining the amount of reinsurance to purchase.

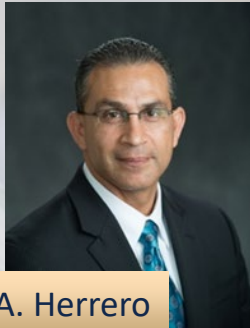
Requires TWIA to contract with a third party to run AIR and RMS models (and optionally others), and to base the 1-100 PML on the lowest.

Relocates Association offices to first or second tier coastal county effective Jan. 1, 2023.



# Rates & Reinsurance Legislation Overview

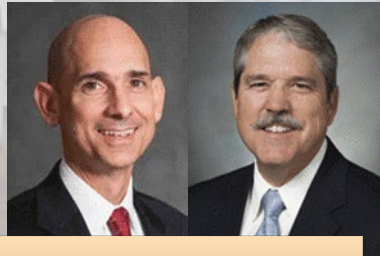
## HB 1450



Rep. A. Herrero

Requires a majority of policyholders to approve a rate increase greater than 5%. The Commissioner of Insurance would be responsible for notifying policyholders of and establishing the voting process.

## HB 3684 SB 1448



Rep. G. Bonnen, Sen. L. Taylor

Extends the deadlines for submission of reports of interim studies by the Windstorm Insurance Legislative Funding and Funding Structure Oversight Board (to November 2022) and the Windstorm Insurance Legislative Oversight Board (to January 2023).



# Rates & Reinsurance Legislation Overview

## HB 3809



Rep. T. Hunter

Changes authority to set TWIA rates from the TWIA Board to the Insurance Commissioner.

Rates Considered Every 5 Years; Not Annually

## HB 3810



Rep. T. Hunter

Requires a two-thirds vote of the Board of Directors to raise rates.

Board Discussion

# WORKSHOP TOPICS



# Introduction

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- The following sections contain topics related to rates and rate adequacy that have been submitted by Board members for discussion by the full Board
- For each topic, staff has provided information the Board may find useful to their discussion, such as background information, current or relevant statutory provisions, comparisons to other plans, historical TWIA data, etc.
- For topics under consideration that impact agents and consumers, staff recommends soliciting input from the Agent Advisory Group and members of the public.

# Topic: Binding Arbitration Clause

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- **Background:** Legislative and operational reforms established after Hurricane Ike have greatly reduced TWIA's litigation ratio/costs and overall claim dispute ratio
- **Question:** Are there additional alternative dispute resolution options TWIA can adopt to further reduce expenses associated with claim disputes?
- **Idea:** Consider the use of binding arbitration to resolve certain claim disputes and reduce claim expenses

# Current Statutory Provision for Voluntary Arbitration

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- **Statute has provisions concerning a Binding Arbitration Endorsement**
  - A person may elect to purchase a binding arbitration endorsement
  - A person may receive an actuarially justified premium discount for choosing the endorsement
  - The discount may not exceed 10% of the policy premium
- **Statute requires the arbitration be conducted in a manner prescribed by Commissioner rule**
  - To date, TDI has not adopted rules concerning the binding arbitration endorsement

# Current Claim Dispute Resolution Options

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## Appraisal

- Sole remedy for disputes over the amount paid for accepted items

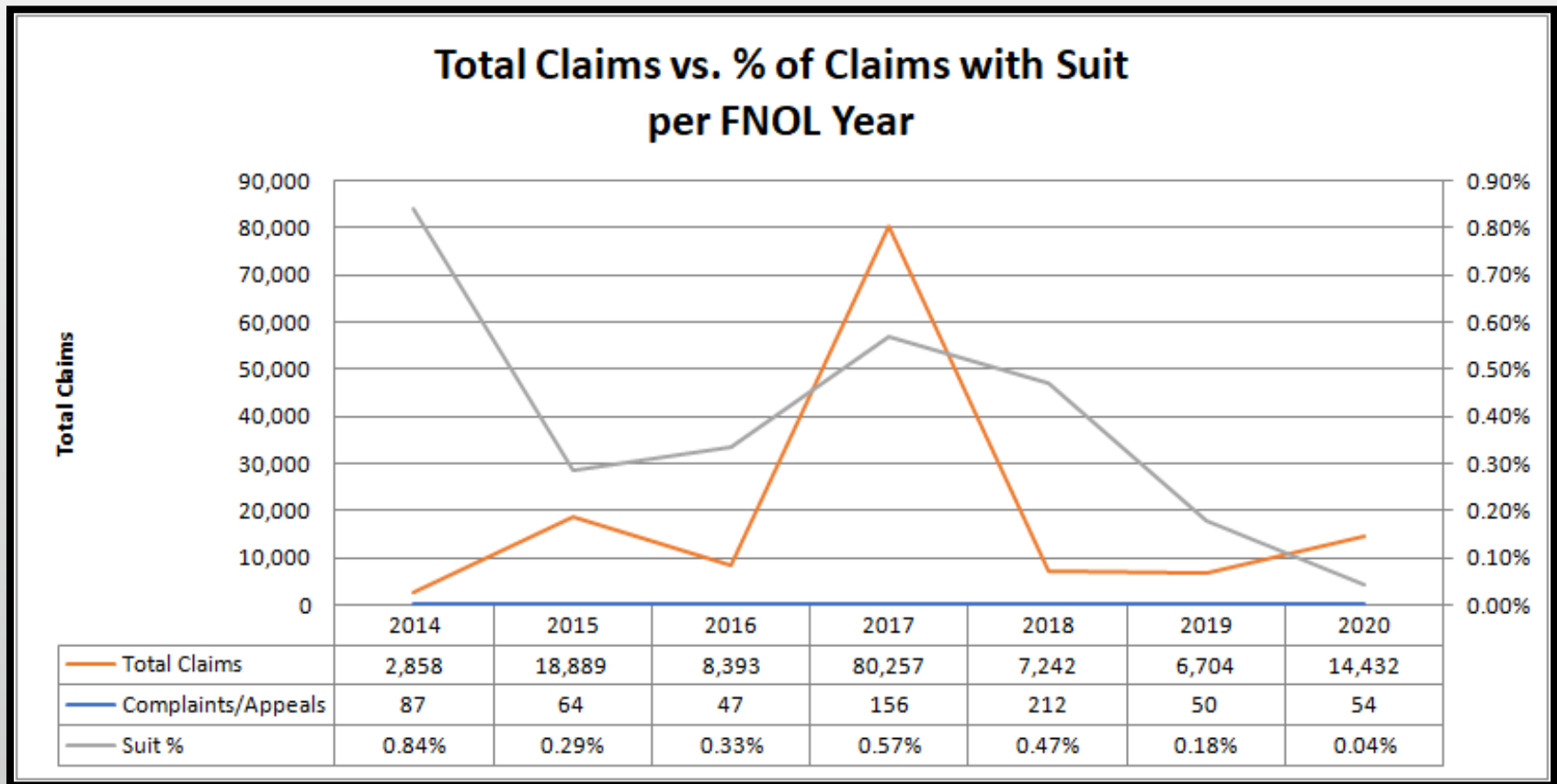
## Litigation

- Sole remedy to contest denied portions of a claim (2210.575)
- Claimant may bring an action
  - Upon receiving notice of action TWIA may request alternative dispute resolution by mediation or moderated settlement conference
  - If the chosen dispute resolution method is not successful, the matter proceeds to litigation

# Dispute Comparison: Ike vs Harvey

		Hurricane Ike	Hurricane Harvey
1	Total claims	93,074	76,716
2	Total indemnity paid	\$2,259,456,356	\$1,360,549,421
3	Appraisals		865
4	Percentage of claims that went through appraisal		1.1%
5	Indemnity paid out through appraisal		\$36,429,565
6	Average appraisal award		\$42,115
7	Percentage of total indemnity paid through appraisal		2.7%
8	Lawsuits	9,035	477
9	Percentage of claims with lawsuits	9.7%	0.6%
10	Indemnity paid out through lawsuits	\$854,982,100	\$13,598,676
11	Average lawsuit settlement or award	\$94,630	\$28,509
12	Percentage of total indemnity paid through lawsuits	37.8%	1.0%
13	Total disputes	9,035	1,342
14	Percentage of claims with disputes	9.7%	1.7%
15	Indemnity paid out through disputes	\$854,982,100	\$50,028,241
16	Average dispute settlement or award	\$94,630	\$37,279
17	Percentage of total indemnity paid through disputes	37.8%	3.7%
18	Estimated indemnity paid to plaintiff attorneys (rather than policyholders)	\$341,992,840	\$14,546,862

# Complaints & Claims with Suits\*



\*The complaint totals include all complaints against the Association: claims complaints and non-claim complaints.<sup>32</sup>



# Topic: Underwriting Inspection Program

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- **Background:** TWIA partners with a third-party to conduct aerial inspections of properties to reduce inspection costs, improve turnaround time of inspections, and gather more accurate property data
- **Question:** Should TWIA implement further changes to its inspection program to ensure property data is complete and accurate?
- **Idea:** Consider requiring agents to conduct physical inspections of properties they submit for coverage

# Inspection Program Pre-2015

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- **Manual review of each new and renewal policy application to check eligibility and insurability**
- **Manual inspections ordered on an as needed basis based on underwriting rules and judgement**
  - Ordered approximately every 5 years
  - Resulted in higher cost and slower turnaround time
  - Required double the underwriting staff to complete manual review of inspections

# Inspection Program 2015-Present

- **TWIA's Risk Visualization Program leverages technology to provide high-resolution aerial imagery and 3D roof measurements to remotely inspect properties, identify property changes from year to year. Benefits include:**
  - Access to annually updated aerial images and roof condition for all rooftops in TWIA's coverage area
  - Increase total number of properties inspected annually while lowering the average cost on a per policy basis
  - Maximize inspection dollars by more effectively selecting properties that warrant a physical inspection through machine learning (\$7 versus \$50)
  - Identify unrepaired damage and other underwriting concerns related to the general condition of the structure
  - Secondary factors captured and delivered via reports
  - Improved assessment of eligibility and insurability
  - Assistance determining adequacy of insurance-to-value
  - Verifying the accuracy of rating information
- **Additional Inspection Tools**
  - Automatic prefill of cost guide from MSB; Uses third party information of sq. feet, age of dwelling, and features include MLS photos when available
  - Utilize ISO reports for commercial risk characteristics as well as physical inspections

# Aerial Inspection Example



The example shows a before (left) and after (right) view of two different aerial inspection flyovers of the same property. The white outline details what was detected in the prior year and the blue outline defines the parcel of land.

# Topic: Policyholder & Agent Self-Service

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- **Background:** Independently and due to legislative changes, TWIA has implemented and planned future process and system improvements to simplify the policy, claims and billing processes and to provide policyholders and agents with more ways to do business with TWIA electronically
- **Question:** Are there additional process or system improvements that have not been completed or currently planned that would significantly lower long-term expenses?
- **Idea:** Consider additional policyholder and agent process and system improvements to streamline operations and further reduce costs

# Policy Renewal Process History

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- **TWIA continues to simplify the policy renewal process**
  - Introduced electronic renewals for agents in 2015
  - As of January 1, 2020, TWIA sends renewal offers directly to policyholders and their mortgage companies and receives payment from them to renew the policy

Policyholders can still use their agent to renew the policy

  - As of November 2020, policyholders may pay TWIA online by credit or debit card or E-check and pay their premium in two installments
  - Reduced (but not eliminated) agent involvement in the payment process

# Future Planned Improvements

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- **Planned for 2022:**

- Improved Agent Portal for smoother application and payment process
- Implementation of a Policyholder Portal for premium payments, access to policy documents, and additional features to be added over time
- Introduction of additional installment plan options



# The Evolution of Renewal Processing

	Prior to 2015	2015-2020	Present	Future (2022+)
<b>Renewal Applications &amp; Offers</b>	US mail from agent only	Electronically from agent	Electronically to agent US mail to policyholder and mortgagee	Ability to send electronically to all
<b>Receipt of Premium</b>	US mail by paper check (agent only)	Electronically from agent, policyholder, and premium finance  US mail from agent and policyholder (via agent)	Electronically from agent, policyholder, and premium finance  US mail from policyholder and mortgagee	Electronic payment preferred
<b>Manual Intervention &amp; Impact</b>	100% Impact: • Seasonal backlog • 50% issued within 14 days	20% Impact: • Zero backlogs • 90% issued within 10 days	10% Impact: • Zero backlogs • 90% issued within 5 days	10% Impact: • Zero backlogs • 90% issued within 5 days
<b>Policy Delivery Method</b>	US mail to agent only	Electronically to agent  US mail to policyholder and mortgagee	Electronically to agent  US mail to policyholder and mortgagee	Electronically to all  Option for US mail to policyholder



# Topic: Modernize Agent Commission Structure

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- **Background:** TWIA's agent commission structure, set by the Commissioner of Insurance, is 16% for both residential and commercial new business and policy renewals
- **Question:** Should TWIA consider offering a different commission structure to decrease this component of Association expenses?
- **Idea:** Evaluate possible changes to TWIA's commission structure to allow a different commission for renewals and/or lower commissions

# Plan Commission Rates Comparison

State	Commission Rate (%)
Alabama	8%
Mississippi	12% New 10% Renewal
Louisiana	10%
Florida	12% Residential 12% Commercial Residential Multiperil 7% Commercial Nonresidential Multiperil 14% Commercial & Commercial Residential Wind Only
North Carolina	13% NCIUA Certified Producer / New Business Sent via Web 8% NCIUA Certified Producer / New Business Not Sent via Web 5% NCIUA Non-Certified Producer / New Business Not Sent via Web
South Carolina	5% Agencies who have not completed an education seminar 10% Agencies who have completed an education seminar
Texas	16% Residential and Commercial 12% Mobile Home

# Agent Advisory Group (AAG) Feedback

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- The AAG represents both independent and exclusive agents of varying sized books of business across different geographic areas in the coverage area. It was created to foster the exchange of ideas and solicit feedback on TWIA's activities and operational processes affecting agents.
- In past meetings, AAG members have offered feedback about the impact of process and system changes to agents relative to commissions.
- The AAG's position is:
  - It is premature to discuss or consider a change to the commission structure prior to the release and successful implementation of project ELEVATE, which will result in a number of system and process changes for agents and bring TWIA processes more in line with the voluntary market
  - Agents are still modifying internal processes to adapt to recently implemented legislative changes to the renewal process and payment options
  - It is preferable to allow for a reasonable period of adjustment, without additional major changes, after the ELEVATE implementation in order to fairly compare ELEVATE with the systems and practices used in the voluntary market

# Related Sunset Recommendation

- **Sunset Advisory Commission staff recommended TWIA establish separate agent commission rates for new business and policy renewals following the implementation of changes that streamline the renewal process**
  - *“Separate rates for new applications and renewals would better allow TWIA to compensate insurance agents in a manner commensurate with the work required.”\**
- **TWIA Response:**
  - *“TWIA has implemented the [changes that streamline the renewal process]. Staff intends to collect agent feedback and data on the utilization of the new payment methods by policyholders for a reasonable period following implementation to make a report to the Board regarding the efficacy of the four new processes. This data will be necessary for the Board of Directors to make an informed recommendation to the Commissioner regarding separate commission rates for new and renewal business.”*

## Renewal Process Changes Recommended by Sunset

2.1 *Require TWIA to automatically offer policy renewal unless new information is necessary*

2.2 *Authorize TWIA to accept installment premium payments*

2.3 *Authorize TWIA to accept credit card payments*

2.5 *Direct TWIA to directly bill customers for premiums for automatic renewal*

# Renewal Process Implementation & Usage

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- **The following three charts contain:**
  1. The dates staff completed the referenced Sunset recommendations
  2. Data showing the volume of renewals issued through the standard renewal process versus the new renewal process and associated lapse rates
  3. Data showing the policyholder utilization of the new online payment options

# Renewal Process Implementation Dates

Sunset Recommendation	Description	Implementation Completed
2.1	Offer automatic policy renewal unless new information is necessary	January 2020
2.2	Accept installment premium payments	November 2020
2.3	Accept credit card payments	November 2020
2.5	Directly bill customers for premiums for automatic renewal	January 2020

# 2021 Policy Renewals

Standard Renewals Process (Paid and Submitted by Agent)					
Month	Renewals Paid	Renewals Paid w/ Lapse	% Renewals Paid w/ Lapse	Avg. Payment Timeframe Relative to Effective Date	% Renewals in Standard Process
January	3,559	479	13.46%	-9.52	33.83%
February	3,057	449	14.69%	-7.82	31.97%
March	4,220	595	14.10%	-9.87	31.15%
2021 YTD Totals	10,836	1,523	14.06%	-9.18	32.22%
New Renewals Process (Paid Directly by Policyholder or Mortgage Co.)					
Month	Renewals Paid	Renewals Paid w/ Lapse	% Renewals Paid w/ Lapse	Avg. Payment Timeframe Relative to Effective Date	% Renewals in New Process
January	6,962	285	4.09%	-17.08	66.17%
February	6,506	200	3.07%	-15.95	68.03%
March	9,328	447	4.79%	-17.05	68.85%
2021 YTD Totals	22,796	932	4.09%	-16.74	67.78%

# 2021 Online Policyholder Payments Usage

- To date, approximately 10% of all premium payments are received from policyholders electronically.
  - This percentage is expected to increase as policyholders learn about and get used to the new payment options.

ACI	March 2021		Inception to Date (11/2020-3/2021)	
Transaction Type	Count	Amount	Count	Amount
ACH (eCheck) Transactions	1,305	\$2,488,220.15	3,513	\$7,109,565.64
Debit/ATM Transactions	154	\$214,786.44	344	\$397,554.94
Credit Card Transactions	521	\$878,564.59	1,514	\$2,477,283.58
TOTALS	1,980	\$3,581,571.18	5,371	\$9,984,404.16
Fees		\$24,331.85		\$66,663.64



# Topic: Expense Management

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- **Background:** As a steward of policyholder funds, TWIA focuses on cost containment, operational efficiency, and continuous improvement to both eliminate and reduce costs as well as to work more efficiently or with fewer resources
- **Question:** Are there additional opportunities for cost containment strategies to be employed that impact rate adequacy?
- **Idea:** Review existing expense management steps taken and potential areas of further savings

# Expense Management Highlights

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- Completed partial, early redemption of \$45 million of the outstanding principal on the Series 2014 bonds used for the payment of Hurricane Harvey losses, resulting in \$8,534,625 in interest savings over the remaining life of the bonds
- Participated in an incentive program offered by the Monetary Authority of Singapore to receive a \$1.49 million reimbursement related to our issuance of Catastrophe Bonds for the 2020 hurricane season
- Canceled the line of credit secured for the potential issuance of Class 1 public securities at the earliest possible date following the end of the 2020 hurricane season to reduce commitment fees totaling \$1.7 million
- ELEVATE, the project to upgrade the Guidewire software used for the Association's core policy, claims, and billing systems, will reduce IT expenses by \$5M annually due to the reduced need to maintain two systems (the initial \$15M investment will be recouped within five years, and the \$5M savings will continue on an ongoing basis)
- In addition to annual cost savings resulting from working remotely, the Association has also observed nearly \$330,000 in one-time savings

# Cost Containment/Avoidance Initiatives

Underwriting & Claims Initiatives	Estimated Annual
Created Risk Visualization Program for underwriting inspections: Increased annual inspections from 20% to 100% of residential book, reduced inspection costs \$43/policy, and obtained access to machine intelligence for property change detection	\$500,000+ Annually
Routed excess underwriting call volume to external call center: Increased ability to quickly and efficiently scale call support during high call volume, reduced headcount as a result, and enabled managers to redirect existing staff to technical work call center staff cannot perform (Cost Per Call: Call Center ≈ \$3.75, In-House ≈ \$12.50)	Approx. \$750,000 Annually
Reduced Claims headcount by three positions	\$162,280 Annually
Replaced Claims call center vendor that intakes first notices of loss reducing cost per call from \$20 to \$14	\$275,000 for Harvey & \$40,000 Annually (Non-storm Years)
Increased messaging to policyholders and agents to report claims using the online portal rather than the call center lower the costs to intake first notices of loss	\$106,000 for Harvey & \$7,000 Annually (Non-storm Years)
Changed translation services provider for claims calls reducing cost/minute from \$2.50-\$3 to \$.83-\$1.25	\$30,546 (2017-2020)
Transitioned to digital claim file documentation reducing off-site storage costs	\$11,340 Annually
Renegotiated Xactware contract to reduce annual basic usage charge from \$335,580 to \$215,125	\$120,455 Annually
Hired two staff field adjusters, resulting in considerable savings, due to not having to use contract independent adjusters. (While it is not cost-effective to retain a full-time staff of independent adjusters, they are needed for high volume claim events.)	\$220,000 Annually

# Cost Containment/Avoidance Initiatives

Human Resources & Administration Initiatives	Estimated Annual
Reduced services due to remote workforce, including janitorial services, utilities, building maintenance and supplies, breakroom supplies, vending services, and first aid supplies	\$160,000 Annually
Reduced Operations Department headcount by two	\$86,250 Annually
Negotiated pricing and services agreement with Payroll and HRIS system, ADP, resulting in annual savings through February 2024	\$28,000 Annually
Brought outsourced or subscription services related to training and other HR activities in-house	\$53,920 Annually
Realized an additional \$15,000 in annual savings through the renegotiation, reduction, or elimination of contracts for HR and Operations/Facilities services	\$17,700 Annually

# Other Cost Containment/Avoidance Initiatives

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- Brought litigation management and e-discovery function in house, eliminating the need to retain outside counsel for this function
- Developed proficiency for Public Information Act requests in house which resulted in minimal reliance on outside counsel
- Implemented a new e-discovery tool which reduced costs of compliance
- Enhanced clarity and resolution of slab claims with the implementation of the Expert Panel's methodology
- All payments over \$10,000 are reviewed and require approval by General Manager
- Extremely detailed bottom-up budgeting of expenses down to vendor level

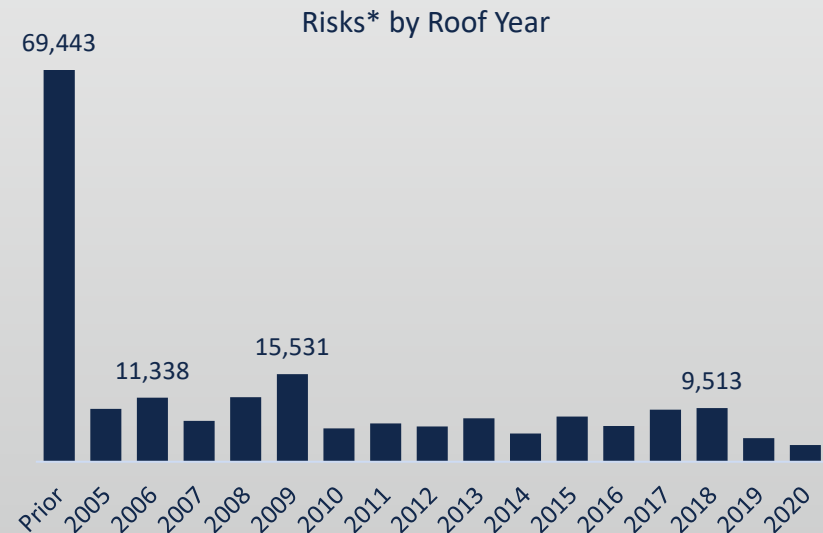
# Plan Expense Comparison

Florida 2020					Louisiana 2020				TWIA 2020			
Direct Written	\$1.18 B				\$59.20 M				\$369.60 M			
Ceded Written	\$239.08 M	20.2% Ceded Ratio			\$24.16 M	40.8% Ceded Ratio			\$107.61M	29.1%		
Net Written	\$943.04 M				\$35.04 M				\$261.10 M			
	Other UW				Other				Other			
	LAE	Exp	Inv Exp	Total	LAE	UW Exp	Inv Exp	Total	LAE	UW Exp	Inv Exp	Total
Direct Commission	0.0%	7.4%	0.0%	7.4%	0.0%	10.0%	0.0%	10.0%	0.0%	16.0%	0.0%	16.0%
Salary %	2.3%	6.0%	0.0%	8.3%	3.2%	5.0%	0.0%	8.2%	3.2%	3.7%	0.0%	6.9%
Employee Relations	0.5%	1.4%	0.0%	2.0%	1.6%	2.8%	0.0%	4.4%	0.3%	1.0%	0.0%	1.3%
Outside Services / Consulting etc.	0.0%	0.6%	0.0%	0.6%	0.5%	0.1%	0.0%	0.6%	0.1%	0.5%	0.0%	0.6%
Other	1.1%	2.9%	0.3%	4.9%	1.6%	4.8%	0.0%	6.9%	0.4%	1.9%	0.0%	2.9%
Total Expenses	3.9%	10.9%	0.3%	15.2%	6.9%	12.6%	0.0%	19.5%	4.0%	7.1%	0.0%	11.1%

# Topic: Expanding Building Code Credit Program

- **Background:** TWIA provides premium credits for residential structures built to newer building codes
- **Question:** Should TWIA expand the building code program to encourage greater wind mitigation efforts?
- **Ideas:**
  - Re-evaluate credits for new and older building codes
  - Additional retrofit credits (roof)
  - Enhanced building code credits (FORTIFIED)
  - Commercial credits

Building Code	Credit	Risks*
IRC / IBC	20% - 33%	39,616
WRC	19% - 32%	9,788
Retrofit	10%	784
None		145,941



# Topic: Vary Rates by Territory

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- **Background:** TWIA has uniform rates in all 14 coastal counties; recent analysis indicates rates could vary significantly between and within counties
- **Question:** Should TWIA perform further analysis on varying rates by territory?
- **Idea:** The territorial analysis most recently performed by Milliman in 2019 could be updated with the current actuarial indications for review by the Board



# Topic: Willis Towers Watson Recommendations

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- **Background:** Willis Towers Watson presented several recommendations to the Board at its December 8, 2020 meeting
- **Question:** How should these recommendations be applied to future ratemaking and funding decisions?
- **Ideas:**
  - Adjust the RMS / AIR catastrophe model blend to 75% / 25%
  - Adopt the long-term frequency assumptions in the models
  - Adjust the hurricane LAE factor to 17.2%
  - Remove the storm surge factor from hurricane loss projections
  - Allocate reinsurance costs separately for residential and commercial

# Impact of WTW Recommendations

- Impacts on 100-Year PML
  - Shifting model blend to 75% / 25% reduces PML by \$369 million
  - All other changes reduce PML by \$320 million combined
- Impacts on rate indications
  - Excluding storm surge reduces indications by 0.5%
  - Allocating reinsurance between residential and commercial reduces residential indications by 1.5% and increases commercial by 7.8%

	PML	Change
TWIA Original PML	<b>\$4,178,012</b>	
Exposure Adjustments		-52,004
Change in LAE Factor		78,932
Long-Term v Near-Term		-150,174
Secondary Modifiers		-172,903
WTW Final Revised PML	<b>\$3,881,864</b>	
Rounding		-23,852
Total		-320,000

All amounts in \$000s and based on 50/50 model weights

# Topic: Application of Rates to New Business vs. Renewals

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- **Background:** Other residual markets have considered different rates for new and renewal business to address rate inadequacy
- **Question:** Should TWIA apply more actuarially sound rates to new business while gradually raising rates for renewals?
- **Idea:** Potential rate structure changes:
  - Increase rates for new business to a capped actuarially sound rate, such as 15% over current rates with an annual increase of 4% thereafter until the full actuarially indicated rate is reached
  - Increase rates for renewal business 3%, then 2% for the following 3 years
  - Policyholders who leave TWIA and re-enter would be charged a new business rate

# Impact and Considerations for Implementation

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- **New business is 15-20% of TWIA business**
  - Slightly more than 50% of TWIA policies would receive the higher rate after four years
- **Likely to require legislation to address statutory rate standards applicable to TWIA**
- **Sec. 2210.355(c) - Rates must be reasonable, adequate, *not unfairly discriminatory*, and nonconfiscatory as to any class of insurer**

# Florida Citizens Approach

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- Florida law, since January 1, 2010, requires that Citizens Property Insurance Corporation annually implement a rate increase which, except for sinkhole coverage, does not exceed 10 percent for any single policy issued by the corporation
- Referred to as the “Glide Path”
- On January 26, 2021, the Board of Governors of Citizens Property Insurance Corporation approved rate recommendations for submission to the to the Florida Office of Insurance Regulation
- One recommendation is that new policyholders pay actuarially sound rates
- If adopted, rates for new business would increase 21%
- The Florida Office of Insurance Regulation held a hearing on the proposals on March 15, 2021 and their decision is pending

# Topic: Eliminate Premium and Maintenance Tax

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**Background:** TWIA pays state taxes on premiums and maintenance. Last year TWIA expensed \$5.9M for 1.6% premium tax against our written premium of \$369.6M. Maintenance tax totaled \$938,785.

**Question:** Should TWIA, as an insurer of last resort, receive an exemption from all taxes as a measure to reduce expenses?

**Idea:** Recommend a legislative change to exempt TWIA from premium and maintenance tax

# Authority Required to Execute

Topic	TWIA	TDI Rule or Filing	Legislation Required
Expense Management & Reduction	X		
Purchase of Reinsurance over 1:100 PML	X		
Adoption of WTW Recommendations	X		
Binding Arbitration		X	
Agent Commissions		X	
Vary Rates by Territory		X	X
Application of Rates to New vs Renewal Business		X	X
Eliminate Premium Maintenance Tax			X

The table above shows the agenda topics that can be executed with TWIA Board or Management approval (TWIA), those that require TDI rule or filing, and those which require legislative change.

# Ideas Submitted by A&UW Committee

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- **Focus on Mitigation**

- Offer premium discounts
- Host seminars / fairs, including demonstration homes
- Promotional campaigns
- “How to” YouTube videos including:
  - installing hurricane roof to wall clips
  - hurricane opening protection options (shutters, fabric, others)
  - reinforced roofs
- Preferred contractors with discounted pricing
- Mitigation section on TWIA website

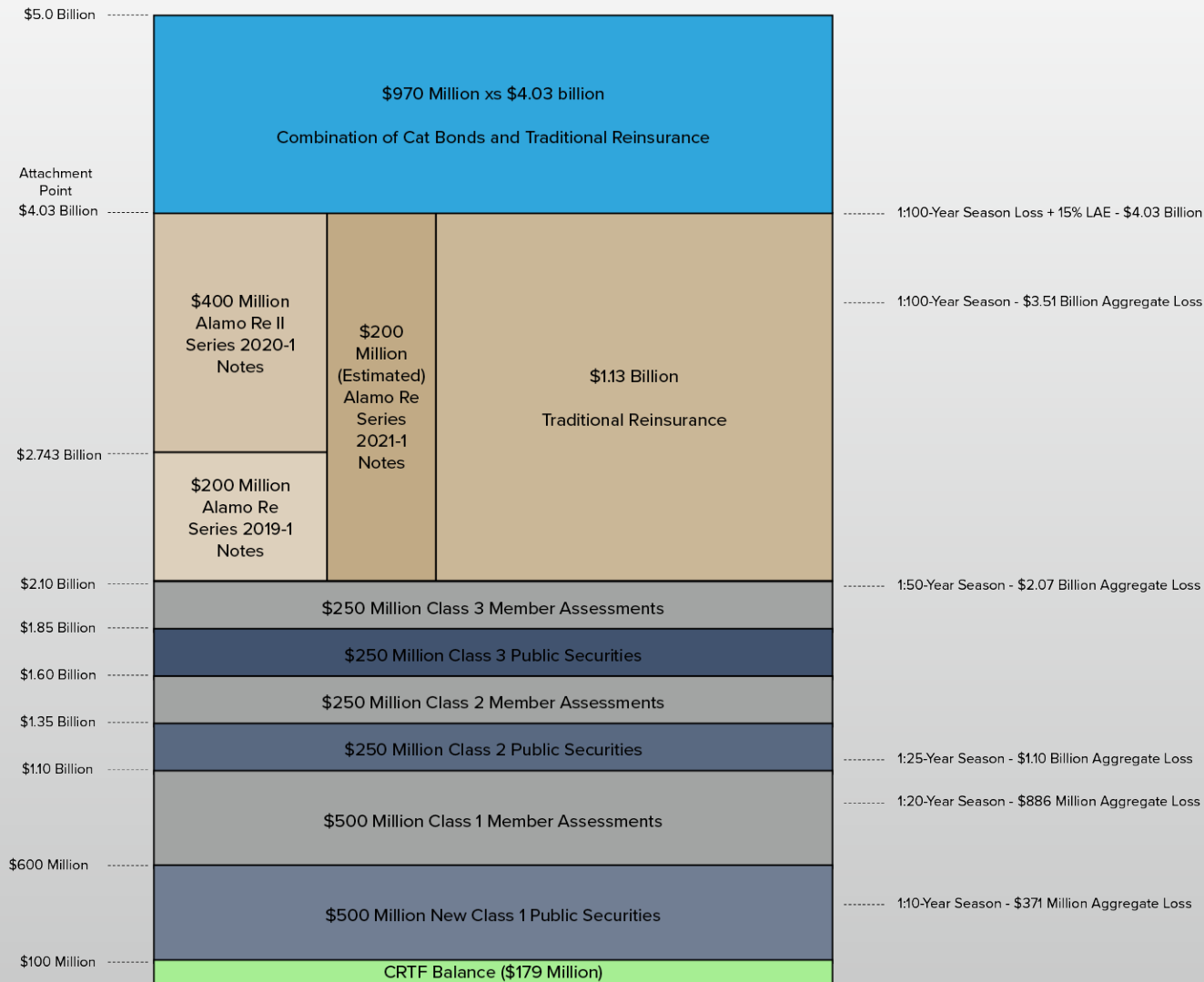


# Ideas Submitted by Public

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- Properties should be rated higher based on their proximity to the coastline
- TWIA should examine ways it can decrease its own expenses before considering rate increases
- Allow the legislature to complete the interim studies authorized by HB 1900 (86th Legislature) now being pursued through HB 3684/SB 1448 (87th Legislature)
- Expand policyholder self-service options and explore ways to modernize TWIA's processes and decrease agents' workloads
- Implement agent performance standards and limit access to TWIA to those agents who understand how to work effectively with the Association
- Delay action on rates until after the legislative session to see which bills pass that may impact the Association's rates, processes, and funding
- Pass legislation that allows TWIA to act as a provider of reinsurance for the private insurance market as offered by the Sunset Advisory Commission Staff Report

# 2021 Reinsurance Purchase



# **ACTION ITEMS & NEXT STEPS**

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